

SCL Waste Heat to Power Project Ordinance

Date of this Brief	December 31, 2012		
Supersedes	N/A		
Key Contacts			
	Name(s)	Phone	Short Title
	Jim Baggs	4-3260	Power Supply Officer
	Glenn Atwood	4-3740	Conservation Resources Director
Council Action Required?	Yes	If YES, within the next 3 months?	
		Yes	
Public Hearing Required?	Yes		
Presenters (if applicable)	Jorge Carrasco, Jim Baggs, and Glenn Atwood		

Summary Statement

This ordinance adopts the Washington State Department of Commerce's advisory opinion on the eligibility of Nucor Steel's waste heat to power project as energy conservation under the Washington Energy Independence Act and authorizes the Superintendent of City Light to enter into a multi-year energy conservation funding agreement with Nucor Steel for the project.

Background

Nucor Steel wishes to install a waste-heat-to-power electricity generation project at its facility in Seattle. Under the Washington Energy Independence Act (I-937), electricity produced by the project may be eligible for credit to Seattle City Light to meet its energy conservation requirements. Nucor sought and obtained an advisory opinion from the Washington State Department of Commerce that the electricity produced is in fact eligible. For this opinion to be binding on the Washington State Auditor, who is responsible for determining Seattle City Light's compliance with the Act, the Seattle City Council must adopt the Department of Commerce's opinion. City Light wishes to enter into a multi-year funding agreement with Nucor for the net electricity production of the project, and this legislation authorizes the Superintendent of City Light or his designee to enter into such an agreement.

Key Issues

- Uncertainty regarding the eligibility of the proposed project's output for credit as energy conservation under I-937 motivated Nucor and Seattle to support legislation amending state law to establish preapproval procedure for publicly-owned electric utilities. Under the approved legislation, the Department of Commerce considers applications and issues advisory opinions which, if approved by the utility's governing board, binds the State Auditor in their oversight of I-937 compliance.
- City Light will contract for the maximum possible net energy production from the project,

currently estimated to be 5,450,000 kilowatt-hours (kWhs) resulting in a maximum incentive payment over three years of \$1,090,000. The payments made to Nucor will be based on the actual net electricity generated over the first three years of the project's operation, based on a payment of \$0.067/kWh. This incentive amount represents one-third of the one-time conservation payment offered to Nucor of \$0.20/kWh based on a project life of 12 years. The levelized cost of the energy savings over that period is \$0.02/kWh.

- The payment is being spread over three years to mitigate City Light's risk should the project fail to operate as proposed or Nucor be unable to meet its obligations during that period. The agreement with Nucor will also have a provision requiring repayment of a proportional share of the conservation incentive should the project be permanently taken out of service prior to the expected twelve-year life of the project. Because the incentive payments to Nucor are to be made over a period longer than two years, City Light needs Council authority to enter into a funding agreement.

Next Steps

- Submit Ordinance for introduction at January 7, 2013 full Council meeting and consideration at Energy and Environment Committee meetings on January 8 and 25.
- Complete negotiation of conservation funding agreement with Nucor; after Ordinance is passed, agreement can be signed (ordinance includes soft ratify and confirm language).